

**REPORT OF THE AUDIT OF THE  
MONTGOMERY COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2007**

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable B.D. Wilson, Montgomery County Judge/Executive

Members of the Montgomery County Fiscal Court

## Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Montgomery County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Montgomery County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, Montgomery County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Montgomery County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2007, on our consideration of the Montgomery County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable B.D. Wilson, Montgomery County Judge/Executive  
Members of the Montgomery County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Montgomery County Fiscal Court's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan – Franklin,

October 3, 2007

## MONTGOMERY COUNTY OFFICIALS

For The Year Ended June 30, 2007

### **Fiscal Court Members:**

Banford D. Wilson	County Judge/Executive
Lloyd G. Cassidy	Commissioner
Gary G. Amburgey	Commissioner
Kenneth Jones	Commissioner

### **Other Elected Officials:**

Kevin Cockrell	County Attorney
Everett D. Myers	Jailer
Judy L. Witt	County Clerk
Connie Martin	Circuit Court Clerk
Fred D. Shortridge	Sheriff
Linda Cockrell	Property Valuation Administrator
Wallace Johnson	Coroner

### **Appointed Personnel:**

Forrest Brown	County Treasurer
Barbara Reynolds	Occupational Tax Administrator
Casey J. Puckett	Finance Officer

**MONTGOMERY COUNTY  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2007**

**MONTGOMERY COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

June 30, 2007

	Primary Government		
	Governmental	Business-Type	Totals
	Activities	Activities	
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,866,470	\$ 102,237	\$ 1,968,707
Notes Receivable	7,137		7,137
Total Current Assets	1,873,607	102,237	1,975,844
Noncurrent Assets:			
Notes Receivable	22,971		22,971
Construction In Progress	45,074		45,074
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	584,000		584,000
Buildings	3,531,234		3,531,234
Other Equipment	327,586		327,586
Vehicles and Equipment	190,269		190,269
Infrastructure Assets - Net of Depreciation	2,434,404		2,434,404
Total Noncurrent Assets	7,135,538		7,135,538
Total Assets	9,009,145	102,237	9,111,382
<b>LIABILITIES</b>			
Current Liabilities:			
Revenue Bonds	40,697		40,697
Financing Obligations	90,811		90,811
Total Current Liabilities	131,508		131,508
Noncurrent Liabilities:			
Revenue Bonds	367,045		367,045
Financing Obligations	330,001		330,001
Total Noncurrent Liabilities	697,046		697,046
Total Liabilities	828,554		828,554
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	6,284,013		6,284,013
Restricted For:			
Expendable	5,359		5,359
Nonexpendable	75,000		75,000
Unrestricted	1,816,219	102,237	1,918,456
Total Net Assets	\$ 8,180,591	\$ 102,237	\$ 8,282,828

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

**MONTGOMERY COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
Governmental Activities:				
General Government	\$ 4,520,361	\$ 186,475	\$ 269,524	\$ 779,466
Protection to Persons and Property	1,740,626	904,049	152,174	
General Health and Sanitation	304,789			
Social Services	109,440			
Recreation and Culture	93,503			
Roads	922,808		971,138	
Airports	25,000			
Interest on Long-term Debt	40,698			
Total Governmental Activities	7,757,225	1,090,524	1,392,836	779,466
Business-type Activities:				
Jail Canteen	218,761	211,495		
Total Business-type Activities	218,761	211,495		
Total Primary Government	<u>\$ 7,975,986</u>	<u>\$ 1,302,019</u>	<u>\$ 1,392,836</u>	<u>\$ 779,466</u>

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Payroll Taxes

Net Profit Tax

Deed Transfer Tax

Solid Waste Tax

Bank Franchise Deposit Tax

Other Taxes

Licenses and Permits

Excess Fees

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
For The Year Ended June 30, 2007  
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (3,284,896)	\$	\$ (3,284,896)
(684,403)		(684,403)
(304,789)		(304,789)
(109,440)		(109,440)
(93,503)		(93,503)
48,330		48,330
(25,000)		(25,000)
(40,698)		(40,698)
(4,494,399)		(4,494,399)
	(7,266)	(7,266)
	(7,266)	(7,266)
(4,494,399)	(7,266)	(4,501,665)
608,384		608,384
73,724		73,724
154,681		154,681
2,419,191		2,419,191
551,081		551,081
83,918		83,918
201,290		201,290
85,408		85,408
30,501		30,501
116,705		116,705
126,925		126,925
88,854		88,854
355,487		355,487
4,896,149		4,896,149
401,750	(7,266)	394,484
7,778,841	109,503	7,888,344
\$ 8,180,591	\$ 102,237	\$ 8,282,828

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY**  
**BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

**June 30, 2007**

**MONTGOMERY COUNTY**  
**BALANCE SHEET – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

June 30, 2007

	General Fund	Road Fund	Jail Fund	Health And Civic Center Fund	Revolving Loan Fund
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 1,163,053	\$ 33,160	\$ 25,416	\$ 238,090	\$ 286,451
Total Assets	<u>\$ 1,163,053</u>	<u>\$ 33,160</u>	<u>\$ 25,416</u>	<u>\$ 238,090</u>	<u>\$ 286,451</u>

**FUND BALANCES**

Reserved for:					
Encumbrances	\$ 8,132	\$ 26,916	\$ 21,930		
Permanent Fund - Senior Care					
Unreserved:					
General Fund	1,154,921				
Special Revenue Funds		6,244	3,486	238,090	286,451
Permanent Fund					
Total Fund Balances	<u>\$ 1,163,053</u>	<u>\$ 33,160</u>	<u>\$ 25,416</u>	<u>\$ 238,090</u>	<u>\$ 286,451</u>

**Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:**

Total Fund Balances	\$ 1,866,470
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities of \$11,349,738 Net of Accumulated	
Depreciation of \$4,237,171, are not Financial Resources and, Therefore, are	
not Reported in the Funds.	7,112,567
Notes Receivables are not Reported in the Funds.	30,108
Long-term Debt is not Due and Payable in the Current Period and, Therefore, is not	
Reported in the Funds.	
Revenue Bonds	(407,742)
Financing Obligations	(420,812)
Net Assets Of Governmental Activities	<u>\$ 8,180,591</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY  
BALANCE SHEET – GOVERNMENTAL FUNDS –  
MODIFIED CASH BASIS  
June 30, 2007  
(Continued)

Non Major Funds	Total Governmental Funds
<u>\$ 120,300</u>	<u>\$ 1,866,470</u>
<u>\$ 120,300</u>	<u>\$ 1,866,470</u>
	\$ 56,978
75,000	75,000
	1,154,921
39,941	574,212
5,359	5,359
<u>\$ 120,300</u>	<u>\$ 1,866,470</u>

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

**MONTGOMERY COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	Health And Civic Center Fund
<b>REVENUES</b>				
Taxes	\$ 4,208,179	\$	\$	\$
Excess Fees	126,924			
Licenses and Permits	116,705			
Intergovernmental	492,611	1,511,117	1,003,058	45,735
Charges for Services			116,324	15,626
Miscellaneous	192,940	10,065	31,691	105,822
Interest	70,305	781	455	5,100
Total Revenues	<u>5,207,664</u>	<u>1,521,963</u>	<u>1,151,528</u>	<u>172,283</u>
<b>EXPENDITURES</b>				
General Government	1,880,152			
Protection to Persons and Property	383,909		1,421,183	
General Health and Sanitation	171,295			135,006
Social Services	90,843			
Recreation and Culture	93,503			
Roads		1,811,598		
Airports	25,000			
Debt Service	53,641		65,334	
Administration	1,733,681	231,961	356,755	20,573
Total Expenditures	<u>4,432,024</u>	<u>2,043,559</u>	<u>1,843,272</u>	<u>155,579</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	775,640	(521,596)	(691,744)	16,704
<b>Transfers &amp; Other Financing Sources (Uses)</b>				
Transfers From Other Funds	125,000	694,211	696,408	
Transfers To Other Funds	(1,365,160)	(163,000)		(41,000)
Total Transfers & Other Financing Sources (Uses)	<u>(1,240,160)</u>	<u>531,211</u>	<u>696,408</u>	<u>(41,000)</u>
Net Change in Fund Balances	(464,520)	9,615	4,664	(24,296)
Fund Balances - Beginning	1,627,573	23,545	20,752	262,386
Fund Balances - Ending	<u>\$ 1,163,053</u>	<u>\$ 33,160</u>	<u>\$ 25,416</u>	<u>\$ 238,090</u>

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH BASIS  
For The Year Ended June 30, 2007  
(Continued)

<u>Revolving Loan Fund</u>	<u>Non Major Funds</u>	<u>Total Governmental Funds</u>
\$	\$	\$ 4,208,179
		126,924
		116,705
	90,516	3,143,037
		131,950
78,010		418,528
7,662	4,551	88,854
<u>85,672</u>	<u>95,067</u>	<u>8,234,177</u>
		1,880,152
	53,541	1,858,633
		306,301
	18,597	109,440
		93,503
	90,000	1,901,598
		25,000
		118,975
267,012		2,609,982
<u>267,012</u>	<u>162,138</u>	<u>8,903,584</u>
(181,340)	(67,071)	(669,407)
	53,541	1,569,160
		<u>(1,569,160)</u>
	53,541	0
(181,340)	(13,530)	(669,407)
467,791	133,830	2,535,877
<u>\$ 286,451</u>	<u>\$ 120,300</u>	<u>\$ 1,866,470</u>

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ (669,407)
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of Those Assets are Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	1,443,265
Depreciation Expense	(369,283)
Asset Disposed of, Net Book Value	(5,900)
Notes Receivable Principal Received is Recorded in the Funds as Revenue, However in the Government-wide Financial Statements it Results in an Increase in Cash and Decrease in Notes Receivable Which has no Effect on Net Assets.	(75,202)
Lease and Bond Principal Payments are Expensed in the Governmental Funds as a use of Current Financial Resources.	
Financing Obligations	40,006
Bond Payments	38,270
Rounding Difference	<u>1</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 401,750</u></u>

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2007**

**MONTGOMERY COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

June 30, 2007

	<b>Business-Type Activities - Enterprise Fund</b>
	<hr/>
	<b>Jail Canteen Fund</b>
	<hr/>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 102,237
Total Assets	<hr/> 102,237 <hr/>
<b>Net Assets</b>	
Unrestricted	102,237
Total Net Assets	<hr/> \$ 102,237 <hr/>

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

**MONTGOMERY COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 196,694
Total Operating Revenues	<u>196,694</u>
<b>Operating Expenses</b>	
Cost of Sales	113,122
Educational and Recreational	58,269
Miscellaneous	3,919
Total Operating Expenses	<u>175,310</u>
Operating Income (Loss)	<u>21,384</u>
<b>Non-Operating Revenues/(Expenses)</b>	
Inmate Refunds	(28,873)
Interest Earned	223
Total Non-Operating Expenses	<u>(28,650)</u>
Change In Net Assets	(7,266)
Total Net Assets - Beginning	109,503
Total Net Assets - Ending	<u><u>\$ 102,237</u></u>

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

**MONTGOMERY COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Receipts From Customers	\$ 196,694
Cost of Sales	(113,122)
Educational and Recreational	(58,269)
Miscellaneous	(3,919)
Net Cash Provided/(Used) By Operating Activities	21,384
<b>Cash Flows From Noncapital Financing Activities</b>	
Inmate Refunds on Accounts	(28,873)
Net Cash Provided/(Used) By Noncapital Financing Activities	(28,873)
<b>Cash Flows From Investing Activities</b>	
Interest Earned	223
Net Cash Provided/(Used) By Investing Activities	223
Net Increase (Decrease) in Cash and Cash Equivalents	(7,266)
Cash and Cash Equivalents - July 1, 2006	109,503
Cash and Cash Equivalents - June 30, 2007	\$ 102,237
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income (Loss)	\$ 21,384
Net Cash Provided By Operating Activities	\$ 21,384

The accompanying notes are an integral part of the financial statements.

**MONTGOMERY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances) if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Montgomery County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented or blended component units.

**C. Montgomery County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Montgomery County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Montgomery County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**MONTGOMERY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Property Tax Calendar**

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied October 1, due at discount October 31, due at face value December 31, delinquent January 1 following assessment, and subject to lien and sale April 30 following the delinquency date.

**E. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements and proprietary fund financial statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as are the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds**

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The primary government reports the following major governmental funds:

*General Fund* - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

*Road Fund* - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

*Jail Fund* - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

*Health And Civic Center Fund* - This fund is used to account for the activities of the Health And Civic Center. The primary source of revenue for this fund is office space rental. The primary expenditures of this fund are building and maintenance expenditures.

*Revolving Loan Fund* - This fund was established to assist local businesses, through loans to qualifying applicants, and is intended to stimulate the local economy through successful private enterprise. It is considered a Special Revenue Fund.

The government also has the following non-major funds: Local Government Economic Assistance Fund (LGEA), Juvenile Fund, and Emergency Food and Shelter Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes. The Finneran Fund is a non-major fund and is presented as a Permanent Fund. This fund is used to account for trust arrangements in which the reporting government is the beneficiary of the earnings on the principal. The Finneran Fund is presented on the statement of net assets as restricted and designated as expendable or nonexpendable.

**MONTGOMERY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

*Jail Canteen Fund* - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**F. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**MONTGOMERY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 5,000	10-60
Buildings	\$ 5,000	10-75
Building Improvements	\$ 5,000	10-60
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	5
Infrastructure	\$ 5,000	10-50

**H. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**I. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**MONTGOMERY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**K. Jointly Governed Organizations**

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Mount Sterling/Montgomery County Airport and Mount Sterling – Montgomery County 911 Board meet the criteria noted above and are disclosed as an organization jointly governed by the city of Mount Sterling and Montgomery County.

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is; (a) in writing; (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and; (c) an official record of the depository institution.

**B. Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, \$32,701 of the County's bank balance of \$908,628 was exposed to custodial credit risk at People's Bank as follows:

Uninsured and unsecured	<u>\$ 32,701</u>
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**MONTGOMERY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

**Note 3. Capital Assets**

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 584,000	\$	\$	\$ 584,000
Construction In Progress		45,074		45,074
Total Capital Assets Not Being Depreciated	584,000	45,074		629,074
Capital Assets, Being Depreciated:				
Buildings	6,294,871	37,271		6,332,142
Other Equipment	501,957	235,355	(18,000)	719,312
Vehicles and Equipment	1,016,906	79,933	(92,000)	1,004,839
Infrastructure	1,618,739	1,045,632		2,664,371
Total Capital Assets Being Depreciated	9,432,473	1,398,191	(110,000)	10,720,664
Less Accumulated Depreciation For:				
Buildings	(2,672,928)	(127,980)		(2,800,908)
Other Equipment	(327,430)	(80,496)	16,200	(391,726)
Vehicles and Equipment	(848,239)	(54,231)	87,900	(814,570)
Infrastructure	(123,392)	(106,575)		(229,967)
Total Accumulated Depreciation	(3,971,989)	(369,282)	104,100	(4,237,171)
Total Capital Assets, Being Depreciated, Net	5,460,484	1,028,909	(5,900)	6,483,493
Governmental Activities Capital Assets, Net	\$ 6,044,484	\$ 1,073,983	\$ (5,900)	\$ 7,112,567

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 53,097
Protection to Persons and Property	131,748
General Health and Sanitation	32,088
Roads, Including Depreciation of General Infrastructure Assets	<u>152,349</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 369,282</u>

**MONTGOMERY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

**4. Notes Receivable**

A. The county loaned \$600,000 to Thornberry Enterprises, Inc. on September 22, 1994, for the purpose of constructing a wood products manufacturing facility. Terms of agreement stipulate a ten-year repayment schedule at 3.0 percent interest. Thornberry Enterprises, Inc. is in substantial compliance with the terms of the agreement. This loan was paid in full as of June 30, 2007.

B. The county loaned \$50,000 to Cabin Hill Properties, LLC, on May 4, 2004. Terms of the agreement stipulate a seven-year repayment schedule at 5.0 percent interest. As of June 30, 2007, the principal balance due was \$30,108. The total amount due in fiscal year 2008 is \$7,137.

**Note 5. Short-term Debt**

In July 2006, Montgomery County participated in the Kentucky Association of Counties' Kentucky Advance Revenue Program by issuing a note in the amount of \$114,350 with principal being due in January 2007. While the county did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties' Kentucky Advance Revenue Program of \$781.

Short-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
Governmental Activities:					
Kentucky Advance Revenue Program	\$	\$ 114,350	\$ 114,350	\$	\$
Business-type Activities					
Short-term Liabilities	\$ 0	\$ 114,350	\$ 114,350	\$ 0	\$ 0

**Note 6. Revenue Bonds**

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$3,980,885 of revenue bonds at various interest rate, of which the county has agreed to pay \$961,340 principal and a proportional share of interest on the issue to be paid in full on October 1, 2014. Revenue bonds outstanding as of June 30, 2007, totaled \$407,743. Debt service requirements due for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 40,697	\$ 29,418
2009	43,277	27,064
2010	46,021	24,561
2011	48,938	21,899
2012	52,041	19,068
2013-2014	176,769	46,184
Totals	\$ 407,743	\$ 168,194

**MONTGOMERY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

**Note 7. Financing Obligations**

**A. Industrial Park Expansion**

The county entered into a lease purchase agreement on March 25, 2002, with the Kentucky Association of Counties Leasing Trust for the purchase of land for the expansion of the industrial park. The principal amount was \$499,000. Interest payments are due monthly at an interest rate of 4.250% for five years. The principal amount of \$400,000 was due on March 20, 2007, however, at this date the Industrial Authority decided, with Kentucky Association of Counties Leasing Trust's consent, to extend the repayment of this debt for five more years or until January 20, 2012. No principal payments were due in the 2007 fiscal year. As of June 30, 2007, the principal outstanding was \$400,000. Debt service requirements due for the remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 70,000	\$ 18,326
2009	75,000	14,771
2010	80,000	10,977
2011	85,000	6,934
2012	90,000	2,627
Totals	<u>\$ 400,000</u>	<u>\$ 53,635</u>

**B. Sheriff's Office Vehicles**

The county entered into a lease purchase agreement on December 21, 2004, with Farmers Bank and Capital Trust Company for the purchase of vehicles for the Montgomery County Sheriff's Office. The principal amount was \$117,000 and the lease stipulates a term of 36 months, with an interest rate of 5.428 percent. As of June 30, 2007, the principal outstanding was \$20,811. Debt service requirements due for remaining years are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2008	\$ 20,811	\$ 323
Totals	<u>\$ 20,811</u>	<u>\$ 323</u>

**MONTGOMERY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007

**Note 7. Financing Obligations (Continued)**

**C. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 446,012	\$	\$ 38,270	\$ 407,742	\$ 40,697
Financing Obligations	460,818		40,006	420,812	90,811
Governmental Activities Long-term Liabilities	<u>\$ 906,830</u>	<u>\$ 0</u>	<u>\$ 78,276</u>	<u>\$ 828,554</u>	<u>\$ 131,508</u>

**Note 8. Related Party Transactions**

The Montgomery County Treasurer's wife is a Vice President at Mount Sterling Bank. This bank is one of the depository institutions used by the County.

**Note 9. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer cost sharing defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**MONTGOMERY COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007**

**Note 10. Insurance**

For the fiscal year ended June 30, 2007, Montgomery County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 11. Deferred Compensation**

The Montgomery County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority, 101 Sea Hero Road Suite #110, Frankfort, KY 40601-8862.

**Note 12. Construction in Progress**

Construction In Progress consisted of the following project as of June 30, 2007:

Health Department Addition and Renovation	\$ 33,600
Widening of KY 11	<u>11,474</u>
Total	<u><u>\$ 45,074</u></u>

**MONTGOMERY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended 2007**

**MONTGOMERY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2007**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 3,735,200	\$ 3,975,200	\$ 4,268,179	\$ 292,979
Excess Fees	13,550	23,550	126,924	103,374
Licenses and Permits	112,500	112,500	116,705	4,205
Intergovernmental Revenue	3,777,150	3,777,150	481,296	(3,295,854)
Miscellaneous	73,460	73,460	132,940	59,480
Interest	80,000	80,000	70,305	(9,695)
Total Revenues	7,791,860	8,041,860	5,196,349	(2,845,511)
<b>EXPENDITURES</b>				
General Government	4,769,827	4,810,263	1,922,479	2,887,784
Protection to Persons and Property	498,011	501,257	383,909	117,348
General Health and Sanitation	674,613	675,638	171,295	504,343
Social Services	90,500	101,150	90,843	10,307
Recreation and Culture	98,000	98,000	93,503	4,497
Airport Contributions	25,000	25,000	25,000	
Debt Service	3,877,250	3,877,250		3,877,250
Administration	1,821,968	1,998,611	1,733,681	264,930
Total Expenditures	11,855,169	12,087,169	4,420,710	7,666,459
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	(4,063,309)	(4,045,309)	775,639	4,820,948
<b>TRANSFERS &amp; OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds	3,800,000	3,800,000		(3,800,000)
Transfers from Other Funds			125,000	125,000
Transfers to Other Funds	(1,186,691)	(1,186,691)	(1,365,160)	(178,469)
Total Other Transfers & Financing Sources (Uses)	2,613,309	2,613,309	(1,240,160)	(3,853,469)
Net Changes in Fund Balance	(1,450,000)	(1,432,000)	(464,521)	967,479
Fund Balance - Beginning	1,450,000	1,450,000	1,627,574	177,574
Fund Balance - Ending	\$ 0	\$ 18,000	\$ 1,163,053	\$ 1,145,053

**MONTGOMERY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 842,774	\$ 1,465,693	\$ 1,511,117	\$ 45,424
Miscellaneous	7,000	7,000	10,065	3,065
Interest			781	781
Total Revenues	849,774	1,472,693	1,521,963	49,270
EXPENDITURES				
Roads	1,271,701	1,897,359	1,811,598	85,761
Administration	234,700	231,961	231,961	
Total Expenditures	1,506,401	2,129,320	2,043,559	85,761
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)				
	(656,627)	(656,627)	(521,596)	135,031
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds			(163,000)	(163,000)
Transfers from Other Funds	656,627	656,627	694,211	37,584
Total Other Transfers & Financing Sources (Uses)	656,627	656,627	531,211	(125,416)
Net Changes in Fund Balance				
Fund Balance - Beginning			9,615	9,615
			23,545	23,545
Fund Balance - Ending	\$ 0	\$ 0	\$ 33,160	\$ 33,160

**MONTGOMERY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 1,207,500	\$ 1,207,500	\$ 1,003,058	\$ (204,442)
Charges for Services	107,000	107,000	116,324	9,324
Miscellaneous	33,500	33,500	31,691	(1,809)
Interest	500	500	455	(45)
Total Revenues	1,348,500	1,348,500	1,151,528	(196,972)
<b>EXPENDITURES</b>				
Protection to Persons and Property	1,351,629	1,421,312	1,421,183	129
Debt Service	65,335	65,335	65,334	1
Administration	426,600	356,917	356,755	162
Total Expenditures	1,843,564	1,843,564	1,843,272	292
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	(495,064)	(495,064)	(691,744)	(196,680)
<b>TRANSFERS &amp; OTHER FINANCING SOURCES (USES)</b>				
Transfers from Other Funds	495,064	495,064	696,408	201,344
Total Transfers & Other Financing Sources (Uses)	495,064	495,064	696,408	201,344
Net Changes in Fund Balance			4,664	4,664
Fund Balance - Beginning			20,752	20,752
Fund Balance - Ending	\$ 0	\$ 0	\$ 25,416	\$ 25,416

**MONTGOMERY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

HEALTH AND CIVIC CENTER FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges For Services	\$ 58,500	\$ 58,500	\$ 61,361	\$ 2,861
Miscellaneous	108,500	108,500	105,822	(2,678)
Interest	4,000	4,000	5,100	1,100
Total Revenues	171,000	171,000	172,283	1,283
EXPENDITURES				
General Health and Sanitation	111,000	140,300	135,006	5,294
Admin	278,650	249,350	20,573	228,777
Total Expenditures	389,650	389,650	155,579	234,071
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)				
	(218,650)	(218,650)	16,704	235,354
TRANSFERS & OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds			(41,000)	(41,000)
Total Transfers & Other Financing Sources (Uses)			(41,000)	(41,000)
Net Changes in Fund Balance	(218,650)	(218,650)	(24,296)	194,354
Fund Balance - Beginning	218,650	218,650	262,386	43,736
Fund Balance - Ending	\$ 0	\$ 0	\$ 238,090	\$ 238,090

**MONTGOMERY COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2007**  
**(Continued)**

<b>REVOLVING LOAN FUND</b>				
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Miscellaneous Revenue	\$ 78,000	\$ 78,000	\$ 78,010	\$ 10
Interest	10,000	10,000	7,662	(2,338)
Total Revenues	88,000	88,000	85,672	(2,328)
<b>EXPENDITURES</b>				
Administration	554,000	554,000	267,012	286,988
Total Expenditures	554,000	554,000	267,012	286,988
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources (Uses)	(466,000)	(466,000)	(181,340)	284,660
Net Changes in Fund Balance	(466,000)	(466,000)	(181,340)	284,660
Fund Balance - Beginning	466,000	466,000	467,791	1,791
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 286,451</u>	<u>\$ 286,451</u>

**MONTGOMERY COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2007

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**Reconciliation of Required Supplementary Information to the Statement of Revenues, Expenditures, and Changes in Fund Balances**

	<u>Revenues</u>	<u>Expenditures</u>
<b>General Fund</b>		
Budgetary Comparison Schedule	\$ 5,196,349	\$ 4,420,709
Interest Payment on Land		
From the Industrial Authority	11,314	11,314
Rounding Difference	<u>1</u>	<u>1</u>
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 5,207,664</u>	<u>\$ 4,432,024</u>

	<u>General Government</u>	<u>Debt Service</u>
<b>General Fund</b>		
Budgetary Comparison Schedule	\$ 1,922,479	\$ 0
Reclassification of Cruisers	(42,327)	42,327
Interest Payment on Land		
From the Industrial Authority	<u>                    </u>	<u>11,314</u>
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 1,880,152</u>	<u>\$ 53,641</u>

**MONTGOMERY COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

June 30, 2007

**Reconciliation of Required Supplementary Information to the Statement of Revenues, Expenditures,  
and Changes in Fund Balances (Continued)**

	<u>Taxes</u>	<u>Miscellaneous</u>
<b>General Fund</b>		
Budgetary Comparison Schedule	\$ 4,268,179	\$ 132,940
Reclassification of Receipts From Nestle	<u>(60,000)</u>	<u>60,000</u>
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	 <u>\$ 4,208,179</u>	 <u>\$ 192,940</u>
	<u>Intergovernmental Revenues</u>	
<b>General Fund</b>		
Budgetary Comparison Schedule	\$ 481,296	
Interest Payment on Land		
From the Industrial Authority	11,314	
Miscellaneous Adjustment	<u>1</u>	
 Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	 <u>\$ 492,611</u>	

**COMBINING BALANCE SHEET – NON-MAJOR  
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

**June 30, 2007**

**COMBINING BALANCE SHEET – NON-MAJOR  
GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

June 30, 2007

	<u>LGEA Fund</u>	<u>Juvenile Fund</u>	<u>Emergency Food And Shelter Fund</u>	<u>Finneran Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 39,941	\$	\$	\$ 80,359	\$ 120,300
Total Assets	<u>\$ 39,941</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 80,359</u>	<u>\$ 120,300</u>
<b>FUND BALANCES</b>					
Reserved for:					
Permanent Fund - Senior Care	\$	\$	\$	\$ 75,000	\$ 75,000
Unreserved:					
Special Revenue Funds	39,941				39,941
Permanent Fund				5,359	5,359
Total Fund Balances	<u>\$ 39,941</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 80,359</u>	<u>\$ 120,300</u>

**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES –  
NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

**For The Year Ended June 30, 2007**

**COMBINING STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES –  
NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

	<u>LGEA Fund</u>	<u>Juvenile Fund</u>	<u>Emergency Food And Shelter Fund</u>	<u>Finneran Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b>REVENUES</b>					
Intergovernmental	\$ 82,940	\$	\$ 7,576	\$	\$ 90,516
Interest				4,551	4,551
Total Revenues	<u>82,940</u>	<u>0</u>	<u>7,576</u>	<u>4,551</u>	<u>95,067</u>
<b>EXPENDITURES</b>					
Protection to Persons and Property		53,541			53,541
Social Services			14,921	3,676	18,597
Roads	90,000				90,000
Total Expenditures	<u>90,000</u>	<u>53,541</u>	<u>14,921</u>	<u>3,676</u>	<u>162,138</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers & Other Financing Sources/(Uses)	(7,060)	(53,541)	(7,345)	875	(67,071)
<b>TRANSFERS AND OTHER FINANCING SOURCES/(USES)</b>					
Transfers From Other Funds		<u>53,541</u>			<u>53,541</u>
Total Transfers & Other Financing Sources/(Uses)		53,541			53,541
Net Change in Fund Balances	(7,060)		(7,345)	875	(13,530)
Fund Balances - Beginning	47,001		7,345	79,484	133,830
Fund Balances - Ending	<u>\$ 39,941</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 80,359</u>	<u>\$ 120,300</u>

# *Morgan-Franklin, LLC*

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The Honorable B.D. Wilson, Montgomery County Judge/Executive  
Members of the Montgomery County Fiscal Court

## **Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Montgomery County Fiscal Court, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated October 3, 2007. Montgomery County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Montgomery County Fiscal Court's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Morgan - Franklin, LLC*

Morgan-Franklin, LLC

October 3, 2007

**CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS  
MONTGOMERY COUNTY FISCAL COURT**

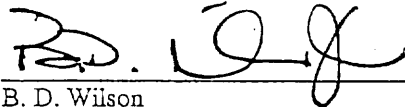
**Fiscal Year Ended June 30, 2007**

Appendix A

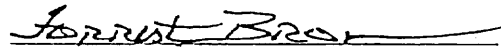
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAMS  
MONTGOMERY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2007

The Montgomery County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Programs was expended for the purposes intended as dictated by the applicable Kentucky Revised Statutes.



B. D. Wilson  
County Judge/Executive



Forrest Brown  
County Treasurer